The Relationship Between Corporate Social Responsibility And Financial Performance In Jordanian Local Banks: Panel Data Approach

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ABSTRACT
In recent years the scholars and executives devoted more attention to the implications of corporate social responsibility practices and their effect to the business. Therefore, in this study panel data approach is used to explore the relationship between corporate social responsibility and corporate financial performance in the Jordanian local banks for the (2000-2014) period. The outcomes of the current study indicate that there is a positive relationship between the corporate social responsibility dimensions and the corporate financial performance dimensions in Jordanian local banks. As well as, the current study showed a positive relationship between bank size as a control variable and corporate financial performance.

Key Words: Corporate Social Responsibility (CSR), Corporate Financial Performance (CFP), Community (COM), Environmental (ENV), Products (PRO), Employees relationship (EMP), Panel data Approach and Jordanian local banks.

1. Introduction

Over the past decades, the Corporate Social Responsibility (CSR) has become a valuable domains not only for the economic researches but also in the theory and practice of law (Dawkins and Lewis, 2003; Young and Thyil, 2009; Park and Lee, 2009; Gulyas, 2009; McGehee, Wattanakamolchai, Perdue and Calvert, 2009). However, over the world CSR is known by a number of different names and dealing through several keywords such as, Charitable, Social Responsibility, Philanthropy and Environment, Social Performance, Social Accountability and triple bottom line (Waddock and Graves, 1997; McWilliams and Siegel,

2000; Mackey, Mackey and Barney, 2007). Many researcher in the world class examined the link between CSR and several economic issues such as, foreign direct investment, inventory polices, Corporate Financial Performance (CFP), corporate governance, market orientations, media tensions, consumers perception, customers satisfaction, earning management and brand equity (Orlitzky, Schmidt and Rynes, 2003; Shahin and Zairi, 2007; Lee and Heo, 2009; Ali, Rehman, Yilmaz, Nazir, Ali, 2010; Hoq, Saleh, Zubayer, Mahmud, 2010; Scherer, Palazzo, 2011;Bardy, Drew and Kennedy, 2012; Melo and Garrido - Morgado, 2012).

The issue of CSR is linked with full range of relationship among the corporation and its various stakeholders, environment, clients, customers and society. Some important aspects of CSR have been subject to discuss among the researcher, such as its conceptualization, disclosure and its link with the CFP. In additions the first research who written in the relationship between CSR and CFP was (Bragdon and Marlin, 1972) attempted to compare between firms with a good record of the pollution control and the companies with a good profit record in the pulp and paper industry (Mwangi and Jerotich, 2013).

Several studies had been examined the relationship between CSR and CFP for instance, Mwangi and Jerotich (2013), Fujii, Iwata, Kaneko and Managi (2012), Kitzmueller and Shimshack (2012) and they found that there is a significant relationship between CSR and CFP. This is because, CSR help of corporations to achieve sustainable profits and the good competition market position. Also, The CSR beneficial for guaranteed a good brand image and reputation, in terms of improved credibility with the public and reduced future liability for environmental damage (Kitzmueller and Shimshack, 2012; Jamali and Mirshak, 2007; Mackey et al., 2007; Agrawal and Chadha, 2005; Orlitzky, Schmidt and Rynes, 2003; Carroll's 1979; Friedman, 1970; Roberts and Dowling 2002).

Other studies argued that the CSR helps to attainment of competitive advantage through more efficient processes, improvements in productivity, lower costs of compliance and new market opportunities (Husted and Allen, 2007; Kanter, 1999 and Russo and Fouts, 1997). Besides, the CSR can enhance the customer and employees loyalty (Porter and Kramer 2011 and Sen, Bhattacharya and Korschun, 2006). Overall, CSR is empirically present a direct and indirect impact on firm Performance. The direct impact can appear from the positive financial performance, while indirect impact can show by the brand image or market reputation that

achieve through media attention (Waddock and Graves, 1997; Moon and deLeon, 2007 and Harrison, Bosse, and Phillips, 2010). Thus, this study aims to explore the relationship between CSR and CFP in the Jordanian local banks for the (2000-2014) period.

2. Previous studies

The researchers often argued that the CSR program improves the competitiveness between the companies in the long term or short term. In addition, the firm's reputation is possibly the most critical and direct source for showing a strengths and weaknesses firm's competitive advantage. This means that there is a positive relationship between the CSR and the financial success (Jorgensen and Knudsen, 2005 and Weber, 2008). Therefore, this connection has not been fully established and the mechanisms between CSR and CFP is still not well understood by the past studies (Prado-Lorenzo et al., 2008; Park and Lee, 2009; Jawahar and McLoughlin, 2001).

Many researchers have examined the relationship between CSR and CFP in developed countries for example; Samy, Odemilin and Bampton (2011) examined the relationship between CSR and CFP by utilized time series data for the period (2002-2006) for UK Company's. Find out that, there is a positive relationship between CSR and CFP. Richard and Michael (2009) argued the relationship of cumulative effects of CSR on CFP; they use time series and cross-sectional data in USA firms during (1991-1996). The results provide evidence that there is positive relationship between CSR and CFP. Also, the results support the ideal of the long term CSR is positive for a firm's stockholders. Arendt and Brettel (2010) examined the effects of CSR on CFP by used a primary method in 389 European companies during 2009. The result conducted a positive relationship between CSR and CFP. Bae, Kang and Wang (2011) investigated the link between CSR and CFP by using regression method in USA enterprises for the (2003-2007) period. The result showed a negative relationship between CSR and CFP.

Other past studies have examined the relationship between CSR and CFP in developing countries for example; Wu, Lin and Wu (2012) explored the relationship between CSR and CFP by using time series data for the period (2007-2010) in Taiwan's companies. The results indicated that firms engaged with CSR have lower cost of capital than non-family firms and will get high earnings quality, plus will reduce the cost of capital effectively. Oeyono, Samy and Bampton (2011) investigated the relationship between CSR and CFP and used time series

data for the period (2003-2007) in Indonesian corporations. The result showed that there is a positive relationship between CSR and Profitability. Kamal (2013) investigated the link between CSR and CFP in the Egyptian companies and used regression method for the (1999-2011) period. The result showed that a negative and statistically significant relationship between CSR in the banking sector and CFP. From this point of view, Table 1 summarizes the results of the relationship between CSR and CFP based on developed and developing countries.

Table 1: summary of the selected empirical studies in the developed and developing countries.

a) Studies in developed countries			
Authors	Variables	Model	Results
Xie (2015)	BTMR = (ENV and COM) ROA= (ENV and COM)	OLS and Ganger Causality models.	BTMR and ROA are positive with (ENV and COM)
Gherghina et al. (2015)	Q = (COM and ENV)	panel data method	Q is positive with (COM and ENV)
Cornetta et al., (2014)	ROE = (COM, EMP, ENV and PRO) ROA = (COM, EMP, ENV and PRO)	multiple regression method	ROE and ROA are positive with (COM, EMP, ENV and PRO)
Cavaco and Crifo (2013)	Q = (ENV) ROA = (ENV)	panel data method ((pooled OLS model) and (GMM)	Q and ROA are negative with (ENV)
Becchetti et al., (2012)	EPS = (COM, EMP, ENV and PRO)	panel data method (fixed and random effect)	EPS is a negative (COM, EMP, ENV and PRO)
Donato and Izzo (2012)	ROA = (EMP, ENV and COM) ROE = (EMP, ENV and COM) ROS = (EMP, ENV and COM)	multiple regression method	ROA, ROE and ROS are a negative with (EMP, ENV and COM)
Godfrey et al., (2009)	STP = (COM, EMP, ENV and PRO)	panel data method	STP is a negative with (COM, EMP, ENV and PRO)
Lech (2013)	ROE = (COM, EMP and ENV) ROA = (COM, EMP and ENV)	panel data method	ROA and ROE have no relationship with (COM, EMP and ENV)
Dragomir (2010)	Q = (ENV) ROE = (ENV) ROA = (ENV) EPS = (ENV)	multiple regression method	Q, ROE, ROA and EPS have no relationship with (ENV)
Makni et al., (2009)	ROA = (COM, EMP and ENV) ROE = (COM, EMP and ENV)	panel data method (Granger causality test)	ROA and ROE have no relationship with COM, EMP and ENV)
Miron and Petrache (2012)	ROE = (EMP, PRO, COM and ENV) ROA = (EMP, PRO, COM and ENV) ROS = (EMP, PRO, COM and ENV)	multiple regression method	ROE, ROA, ROS are mix relationship with (EMP, PRO, COM and ENV)
Manescu (2010)	STKR = (ENV, COM and EMP)	cross-sectional regressions	STKR have mix relationship with (ENV, COM and EMP)
Barnett and Salomon (2006)	ROE = (COM, ENV and EMP)	panel data method (pooled (OLS)	ROE showed a mix relationship with (COM, ENV and EMP)
b) Studies in developing countries			
Murtaza et al ., (2014)	ROE = (COM and ENV) EPS = (COM and ENV) ROA = (COM and ENV)	multiple regression method	ROE, EPS and ROA have positive with (COM and ENV)

Ahamed at al., (2014)	ROE = (COM and ENV, WOR and MAR) ROA = (COM and ENV and MAR)	multiple regression method	ROE and ROA positive with (COM and ENV, WOR and MAR)
Wuncharoen (2013)	ROE = (ENV, COM and EMP) ROA = (ENV, COM and EMP)	cross-sectional method	ROE and ROA positive relationship with (ENV, COM and EMP)
Kamal (2013)	EPS = (EMP)	multiple regression method	EPS negative relationship with (EMP)
Khan and Hassan (2013)	ROE = (EMP) REV = (EMP)	multiple regression method	ROE and REV negative relationship with (EMP)
Vahdati et al., (2012)	ROE = (COM and ENV)	multiple regression method	ROE no relationship with (COM and ENV)
Bhunia and Das (2015)	EPS = (ENV)	multiple regression method	EPS has mix relationship with (ENV)
Crisostomo et al., (2011)	ROA = (ENV, EMP and COM) ROE= = (ENV, EMP and COM)	panel data method	ROA and ROE mix result with (ENV, EMP and COM)

Notes: Book to market ratio is (BTMR); Return on assets is (ROA); Environment is (ENV); Product is (PRO); Employees relation is (EMP); earnings per share is (EPS); Revenues is(REV); Community is (COM); Workplace is (WOR); Marketplace is (MAR); Stock returns (STKR); Return on sales (ROS), Tobin's Q ratio (Q); generalized method of moments model (GMM) and Stock's price (STP).

Based on the above discussion, there are conflicting results regarding the relationships between the CSR dimensions (i.e., ENV, PRO, COM and EMP) and CFP dimensions (i.e., ROE and EPS) as well as, there are conflicting results regarding to the relationship between CFP and SIZE in both developed and developing countries. Thus, to achieve the objectives of the current paper, we have formulated the following hypotheses:

H_1: *Significant relationship exists between CSR dimensions (i.e., ENV, PRO, COM and EMP) and ROE in Jordanian local banks.*

H_2: *Significant relationship exists between CSR dimensions (i.e., ENV, PRO, COM and EMP) and EPS in Jordanian local banks.*

3. Data Sources, Variables and Methodology

3.1. Data

In the current study, annual time-series data for the (2000-2014) period is used to investigate the relationship between CSR and CFP in the Jordanian local banks (See Table 2). Furthermore, the CSR dimensions (i.e., ENV, PRO, COM and EMP) are collected from the annual reports of Jordanian local banks. In addition, the CFP dimensions (i.e., ROE and EPS) are collected from Amman Stock Exchange (ASE) database available online at

(http://www.ase.com.jo). However, a STATA (version, 4.1) statistical package is utilized for analysis of the relationship and between CSR dimensions (COM, ENV, EMR and PRO) and the CFP dimensions (ROE and EPS) in Jordanian local banks.

Table 2: The selected sampling of the local banks

No	Name	Ticker	Original	Establish	Type
1-	Arab Bank	ARBK	Local	1930	commercial
2-	Jordan Ahli Bank	AHLI	Local	1956	commercial
3-	Cairo Amman Bank	CABK	Local	1960	commercial
4-	Bank of Jordan	BOJX	Local	1960	commercial
5-	Jordan Dubai Islamic Bank	JDIB	Local	1963	Islamic
6-	Housing Bank for trade & finance	THBK	Local	1974	commercial
7-	Jordan Kuwait Bank	JOKB	Local	1977	commercial
8-	Arab Jordan Investment Bank	AJIB	Local	1978	commercial
9-	Jordan Commercial Bank	JCBK	Local	1978	commercial
10-	Jordan Islamic Bank	JOIB	Local	1978	Islamic
11-	Invest Bank	INVB	Local	1989	commercial
12-	Arab Banking Corporation	ABCO	Local	1989	commercial
13-	Bank al Etihad	UBSI	Local	1991	commercial
14-	Societe General Bank of Jordan	SGBJ	Local	1993	commercial
15-	Capital Bank of Jordan	EXFB	Local	1996	commercial
16-	Islamic International Arab Bank	IIAB	Local	1997	Islamic

Source: Central bank of Jordan (2014) database. Available online at: www.cbj.org.jo

3.2. Variables

3.2.1. Corporate Financial Performance

To measure the CFP the current study followed the past empirical studies (Table 1). These studies have used ROE (accounting-based financial performance) and EPS (market-based financial performance) as a measurement of CFP (e.g., Berman et al., 1999; Hull & Rothenberg, 2008; Kang et al., 2010).

ROE = Net Income after Taxes / Total Equity Capital.

EPS = Net Income - Preferred Dividends / Weighted Average Number of Common Shares Outstanding.

3.2.2. Corporate Social Responsibility

To measure the CSR in the Jordanian local banks, the current study followed the previous studies (Table 1) to select the CSR dimensions (i.e. ENV, COM, PRO and EMP). However, all the selected variables of the CSR measured from different index see for example (Truscott, Bartlett and Tywoniak, 2009; Haniffa and Cooke, 2005 and Hackston and Milne, 1996). The CSR dimensions explored how the firm interacts with its employees, suppliers and customers. While, the environmental dimensions refer to how the business operations worries about natural environment. And the community dimensions are related to how the companies contribute to a better society by integrating its business with social concerns. In addition, the most popular definition of CSR is "A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis (Dahlsrud, 2008).

3.2.3. Control Variable

To measure the companies SIZE and it is effect on the CFP this study following the previous studies that analysis the link between company SIZE and the CFP. Moreover, the control variables relationship with the CFP has investigated by many researchers such as (Luo & Bhattacharya, 2006; McWilliams & Siegel, 2001; Waddock & Graves, 1997). Some of the researchers have used the company SIZE as a control variable (e.g., Hillman & Keim, 2001; Kang et al., 2010 and Waddock and Graves, 1997). These studies conclude that the company size may have a significant effect on the relationship between CSR and CFP; this is because the large firms are more likely to engage in CSR initiatives than the small companies. To be consistent with the previous studies (e.g., Hillman & Keim, 2001; Lee & Park, 2009; Waddock & Graves, 1997), in this study the banks SIZE represented by the banks' capital is used.

3.3. Model

To examined the relationship between CSR and CFP in Jordanian local banks for the (2000 and 2014) period panel data approach (fixed and random) model is used. Thus, the model specification for (ROE and EPS) are formulated as in equations (1 and 2) respectively.

$$ROE = c + \beta_1 COM + \beta_2 EMP + \beta_3 PRO + \beta_4 ENV + \beta_5 SIZE + \varepsilon \quad (1)$$

$$EPS = c + \alpha_1 COM + \alpha_2 EMP + \alpha_3 PRO + \alpha_4 ENV + \alpha_5 SIZE + \varepsilon \quad (2)$$

Where: Return on Equity (ROE) and Earnings per Share (EPS) are presented the dependent variables, CSR dimensions (i.e., ENV, COM, PRO and EMP) represent the independent Variables, banks SIZE is control variable, c represent the intercept terms; β_i (i= 1,…. 5) and α_i (i=1,….5) denotes the coefficients of variables; ε is the errors term.

4. Findings and Discussions

The research objective of the study is to examine the relationship between CSR dimension and CFP dimension by using random and fixed effects models (panel data method) in Jordanian local banks. However, the panel data models corrected for serial correlation and heteroscedasticity. Table 3 shows the results of the relationship between ROE and (COM, EMP, PRO, ENV and SIZE). However, the results exhibit a number of interesting facts about the relationship between ROE and COM, EMP, PRO, ENV and SIZE indicates for the local banks in Jordan. The model obtains four significant coefficients for COM, PRO, ENV and SIZE on ROE. This model indicates that there is a positive relationship between CFP and CSR in Jordanian local banks. This means that an increase in the CSR dimensions COM, PRO, ENV and SIZE will lead to increase CFP for the local banks of Jordan. This means that 100% increase in COM, PRO, ENV and SIZE will lead to increase the ROE by 0.70%, 0.55%, 0.91% and 2.14% respectively. These results are consistent with other researchers findings i.e. Xie (2015) for Canada, Flamer (2013) for USA, Fujii et al., (2012) for japan.

Equation 1: ROE = f (Community, Employees, Products, Environment, Size).

Table 3: The Estimates for Parameters of the ROE for Local Banks, 2000-2014

Coefficient	Parameters	Estimated value	Standard error
Community	β_{11}	0.708*	0.338
Employees	β_{12}	0.013	0.333
Products	β_{13}	0.552*	0.306
Environment	β_{14}	0.918***	0.226
Size	β_{15}	2.149***	0.519

Source: The result is obtained from STATA software.

Significant at 1% ***

Significant at 5% **

Significant at 10% *

Insignificant

Equation 2: EPS = f (Community, Employees, Products, Environment, Size)

Table 4: The Estimates for Parameters of the EPS for Local Banks, 2000-2014

Coefficient	Parameters	Estimated value	Standard error
Community	β_{21}	0.034***	0.008
Employees	β_{22}	0.023*	0.010
Products	β_{23}	0.034***	0.009
Environment	β_{24}	0.015*	0.007
Size	β_{25}	0.091***	0.023

Source: The result is obtained from STATA software.

Significant at 1% ***

Significant at 5% **

Significant at 10% *

Insignificant

Table 4 shows the relationship between EPS and COM, EMP, PRO, ENV and SIZE indicators for local banks in Jordan. The model obtains four significant coefficients for COM, PRO, ENV, and size on EPS. Moreover, this model indicates that COM, PRO and size variables are positively associated with EPS at the 1% significance level, while the EMP variable is positively associated with EPS at the 5% significance level.

In general, the relationship between CSR and CFP was discussed in several theories; for example the stakeholder's theory confirmed that there are significant relationships between CSR and CFP (freeman, 1984; Doh and Guay, 2006). In their reasoning, many scholars based this expectation on benefits derived from creating goodwill from stockholders, referred to as stakeholder's theory (Demacarty, 2009). Also, Flammer (2013) examined the effect of the CSR (EMP, ENV and human rights) on CFP (EPS). The results of this study showed that the CSR can positively affect CFP.

5. Conclusion

The goals of this study are to describe the nature and trend of CSR practice in Jordan and to investigate the relationship between CSR dimensions and CFP dimensions. As well as, this study aim to argue the relationship between CFP and banks size in Jordanian local banks. The current study found evidence of the significant positive relationship between CSR and CFP, as well as a positive relationship between CFP and banks Size. The findings from this study suggest that community, environmental, employee's relationship and products can enhance the financial performance.

6. Policy Implication and Recommendation

The field of the corporate social responsibility has grown exponentially in the last decade. However, a larger number of companies are engaged in a serious effort to define and integrate CSR into all aspects of their businesses. Nowadays, huge number of shareholders, regulators, activists, labor unions, analysts, employees, community organizations, and news media are asking companies to increase their contribution on CSR issues. This is because there is increasing demand for transparency and growing expectations that corporations measure, report, and continuously improve their social, environmental, and economic performance.

The findings of this study offer a new and fresh insight on the relationship between CSR dimensions and CFP in Jordanian local banks. These findings have practical implications on the management of Jordanian companies to re-think and re-strategize their CSR policies that incorporate social and economic performance of an entity in order to improve their CFP. However, in order to improve CSR practice in Jordan, the researchers recommend that Government in collaboration with private and public agencies should consider the needs for CSR framework and database to guide social and environmental. As well as, the current study recommends the policy maker to intensification the work on the CSR activates and monitoring the regulations that identified the CSR, which such a program could help the government to minimize the social problems and environment as well as will improve the financial performance in the companies.

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